



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

August 4, 2006

VIA FACSIMILE TO (202) 466-3215 AND U.S. MAIL

Timothy W. Jenkins
Paul L. Knight
O'Connor & Hannan, LLP
1666 K Street, N.W.
Suite 500
Washington, D.C. 20006-2803

RE: MUR 5721
Lockheed Martin Employees' PAC

Dear Messrs. Jenkins and Knight:

On July 14, 2006, the Federal Election Commission accepted the signed agreement that you submitted in settlement of violations of 2 U.S.C. §§ 432(c)(5), 434(b)(2)-(4), (6)(B)(v), provisions of the Federal Election Campaign Act of 1971, as amended ("the Act"), and 11 C.F.R. § 104.3. Accordingly, the file in this matter has been closed as to Lockheed Martin Employees' PAC, and this matter is now public as to it. Documents related to the case will be placed on the public record within 30 days. *See* Statement of Policy Regarding Disclosure of Closed Enforcement and Related Files, 68 Fed. Reg. 70,426 (Dec. 18, 2003).

Please find enclosed a copy of the fully executed conciliation agreement for your files and two Statements of Reasons. Please note that the civil penalty is due within 30 days of the effective date of the conciliation agreement. If you have any questions, please contact me at (202) 694-1650.

Sincerely,

A handwritten signature in black ink that reads "Jin Lee".

Jin Lee
Attorney

Enclosures

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BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
) MUR 5721
Lockheed Martin Employees' PAC)
Stephen E. Chaudet, in his official capacity)
as treasurer)

CONCILIATION AGREEMENT

This matter was initiated by the Federal Election Commission ("Commission"), pursuant to information ascertained in the normal course of carrying out its supervisory responsibilities. The Commission found reason to believe Lockheed Martin Employees' PAC and Stephen E. Chaudet, in his official capacity as Treasurer (collectively "Respondents"), violated 2 U.S.C. §§ 432(c)(5), 434(b)(2)-(4), (6)(B)(v), of the Federal Election Campaign Act of 1971, as amended ("the Act"), and 11 C.F.R. § 104.3(a), (b).

NOW, THEREFORE, the Commission and the Respondents, having participated in informal methods of conciliation, prior to a finding of probable cause to believe, do hereby agree as follows:

- I. The Commission has jurisdiction over the Respondents and the subject matter of this proceeding, and this agreement has the effect of an agreement entered pursuant to 2 U.S.C. § 437g(a)(4)(A)(i).
- II. Respondents enter voluntarily into this agreement with the Commission.
- III. The pertinent facts in this matter are as follows:

Applicable Law

- 1. The Act requires the treasurer of a political committee to file reports of receipts and disbursements and to sign each such report. 2 U.S.C. § 434(a)(1).
- 2. Each report filed pursuant to 2 U.S.C. § 434 must contain the total amount of all receipts and disbursements. 2 U.S.C. § 434(b)(2), (4).

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3. The treasurer of a political committee must keep an account of “the name and address of every person to whom any disbursement is made, the date, amount, and purpose of the disbursement, and the name of the candidate and the office sought by the candidate, if any, for whom the disbursement was made, including a receipt, invoice, or cancelled check for each disbursement in excess of \$200.”
2 U.S.C. § 432(c)(5).
4. A political committee must report the identity of the person who makes a contribution that has an aggregate amount or value in excess of \$200 within the calendar year, or in any lesser amount if the committee should so elect, together with the date and amount of any such contribution. 2 U.S.C. § 434(b)(3)(A).
5. A political committee must report the name and address of each person who has received any disbursement that has an aggregate amount or value in excess of \$200, together with the date, amount, and purpose of any such disbursement. 2 U.S.C. § 434(b)(6)(B)(v); 11 C.F.R. § 104.3(b).

Background

6. Respondents are Lockheed Martin Employees’ PAC (“LMEPAC”), a separate segregated fund, and Stephen E. Chaudet, in his official capacity as treasurer.
7. Kenneth Phelps was the Assistant Treasurer of LMEPAC from August 11, 1997 to February 24, 2004. As Assistant Treasurer, Phelps prepared and signed reports filed pursuant to 2 U.S.C. § 434. Phelps also maintained all bank records, prepared and disbursed checks, deposited contributions, and performed bank reconciliations.

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Phelps' Embezzlement of LMEPAC's Funds and False Reports

8. Beginning in October 2001, Phelps began writing checks to himself for unauthorized disbursements by forging the required signatures.
9. Phelps falsified LMEPAC's electronic ledger by recording the disbursements as contributions to various campaigns/candidates.
10. Upon discovery of Phelps' embezzlement, LMEPAC conducted its own internal investigation and determined that Phelps misappropriated a total of \$170,000 between October 2001 through December 2003. In late 2003, LMEPAC terminated Phelps.
11. Due to Phelps' falsified ledger entries, LMEPAC filed inaccurate reports with the Commission between October 2001 through December 2003. These reports failed to accurately disclose disbursements totaling \$170,000 made to Phelps.

Internal Corporate Audit

12. Prior to the embezzlement described in paragraphs 8-11 above, the Lockheed Martin Corporation issued an internal document entitled, Corporate Internal Audit Report ("LM Report") on June 11, 2001. Among other findings, the LM Report stated that due to a change in personnel and process, Phelps became responsible both for reconciling LMEPAC bank accounts as well as processing LMEPAC receipts and disbursements. The LM Report also stated that generally accepted accounting principles require a segregation of duties between the recording and custody of cash reports.
13. Further, the LM Report stated that Phelps was not able to provide a reconciliation between LMEPAC book balance, the FEC report, and LMEPAC's bank accounts (checking and money market accounts) for year-end 2000.

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14. The LM Report recommended that the responsibility for reconciling cash accounts be assigned to an employee who is independent of LMEPAC's receipts and disbursements.
15. To accomplish the segregation of duties as recommended in the LM Report, LMEPAC officials decided to outsource the administration of LMEPAC and gave the responsibility for outsourcing to Phelps, including obtaining a new vendor. The Assistant Controller's Office was to provide oversight support to a new vendor that was to begin formal operations on December 1, 2001.
16. Between June 2001 and December 2003, the outsourcing of LMEPAC administration was never completed and the responsibilities for reconciling cash accounts and handling LMEPAC's receipts and disbursements were never segregated internally. As a result, Phelps remained in complete control of LMEPAC's financial assets.
17. In a sworn affidavit submitted to the Commission, LMEPAC states that Chaudet asked Phelps on a number of occasions about the status of the outsourcing assignment, and Phelps assured him that the outsourcing was in process but that there were security issues that needed to be worked out first to ensure the privacy of confidential employee information. These representations were untruthful and appear to have been designed to permit Phelps to carry out his embezzlement scheme.
18. Respondents contend that throughout his employment at Lockheed Martin until the time that his embezzlements were discovered, Phelps was considered a hardworking and trustworthy employee.

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19. Because the outsourcing was never completed, no one at LMEPAC discovered that Phelps misappropriated committee funds until after the Commission notified LMEPAC officials about the commencement of an audit in December 2003.

Failure to Disclose Additional Receipts

20. On December 24, 2003, LMEPAC filed an original 2003 December Monthly Report disclosing \$65,318.06 in total receipts. On April 6, 2004, after reconstructing information destroyed by Phelps, LMEPAC filed amendments disclosing an additional \$74,870.49 in receipts for the covered period.
21. On January 30, 2004, LMEPAC filed an original 2003 Year End Report disclosing \$0 in total receipts. On April 6, 2004, after reconstructing information destroyed by Mr. Phelps, LMEPAC filed amendments disclosing an additional \$61,226.29 in receipts for the covered period.
22. On April 15, 2004, LMEPAC filed an original 2004 April Quarterly Report disclosing \$151,258.34 in total receipts. On July 15, 2004, after reconstructing information destroyed by Mr. Phelps, LMEPAC filed amendments disclosing an additional \$57,947.49 in receipts for the covered period.
23. Additional amendments were filed between September 27, 2005 and November 8, 2005 for the December 2003 Report and 2003 Year-End Report. Additional amendments were filed between August 12, 2004 and November 8, 2005 for the 2004 April Quarterly Report. These amendments incorporate corrections uncovered through the FEC Audit of LMEPAC, including an adjustment of receipts totaling approximately One Hundred Dollars (\$100.00).
24. In sum, LMEPAC's original 2003 December Monthly Report, 2003 Year End Report, and 2004 April Quarterly Report failed to disclose \$194,196.67 in

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receipts. The main cause for virtually all the receipts, which were not timely filed, was the destruction or disposal by Mr. Phelps of the disks containing the data required to accurately report these items to the Commission.

IV. Respondents committed the following violations:

1. Respondents violated 2 U.S.C. §§ 432(c)(5); 434(b)(4), (6)(B)(v) and 11 C.F.R. § 104.3(b) by failing to accurately account for and report disbursements totaling \$170,000 made to Kenneth Phelps.
2. Respondents violated 2 U.S.C. §434(b)(2) and (3) and 11 C.F.R. § 104.3(a) by failing to disclose receipts totaling \$194,196.67 in original reports filed with the Commission.

V. Respondents will take the following actions:

1. Respondents will pay a civil penalty to the Federal Election Commission in the amount of twenty seven thousand dollars (\$27,000), pursuant to 2 U.S.C. § 437g(a)(5)(A). In considering the appropriate civil penalty in these matters, the Commission has found mitigating circumstances, including that Kenneth Phelps misappropriated committee funds and that LMEPAC cooperated during the audit process and thereafter amended its reports.
2. Respondents will cease and desist from violating 2 U.S.C. §§ 432(c)(5); 434(b)(2)-(4), (6)(B)(v), and 11 C.F.R. § 104.3(a), (b).

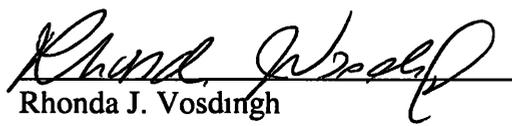
VI. The Commission, on request of anyone filing a complaint under 2 U.S.C § 437g(a)(1) concerning the matters at issue herein or on its own motion, may review compliance with this agreement. If the Commission believes that this agreement or any requirement thereof has been violated, it may institute a civil action for relief in the United States District Court for the District of Columbia.

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- VII. This agreement shall become effective as of the date that all parties hereto have executed same and the Commission has approved the entire agreement.
- VIII. Except as otherwise provided, Respondents shall have no more than 30 days from the date this agreement becomes effective to comply with and implement the requirements contained in this agreement and to so notify the Commission.
- IX. This Conciliation Agreement constitutes the entire agreement between the parties on the matters raised herein, and no other statement, promise, or agreement, either written or oral, made by either party or by agents of either party, that is not contained in this written agreement shall be enforceable.

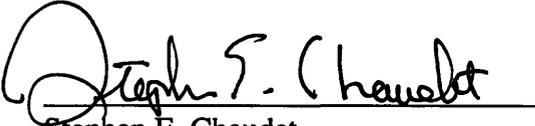
FOR THE COMMISSION:

Lawrence H. Norton
General Counsel

BY: 
Rhonda J. Vosdingh
Associate General Counsel For Enforcement

7/19/04
Date

FOR THE RESPONDENTS:


Stephen E. Chaudet
Treasurer, Lockheed Martin Employees' PAC

6/6/06
Date

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